

VERMONT PENSION INVESTMENT COMMITTEE

May 31, 2006

Members Present:

JEB SPAULDING, Chairman, VT State Treasurer
LINDA McINTIRE, VSERS Commissioner of Human Resources
JAMES REARDON, VSERS Commissioner of Finance & Management
DICK JOHANNESSEN, VSERS Governor's Delegate
ROBERT HOOPER, VSEA member (term expiring September 2006)
WILLIAM HARKNESS, VSEA member (term expiring September 2007)
JOE HEALY, VSERS Retired Vermont State Employees' Association
STEVEN JEFFREY, VMERS Employee Representative (term expiring July 1, 2007)
DAVID LEWIS, VMERS Employer Representative (term expiring July 1, 2006)
MARIE DUQUETTE, VMERS Governor's delegate
JOSEPH MACKEY, VSTRS Active No. 29334 (term expiring July 1, 2009)
JAY KAPLAN, VSTRS Association of Retired Teachers of Vermont, (term expiring July 1, 2008)
JON HARRIS, VSTRS Active No. 25669 (term expiring July 1, 2007)
VAUGHN ALTEMUS, VSTRS representing Commissioner of Education
THOMAS CANDON, VSTRS representing Commissioner of BISHCA

Members Absent:

WARREN WHITNEY, VSERS Vice-Chairman, VSEA member (term expiring September, 2006)
W. JOHN MITCHELL, II, VMERS Employee Representative (term expiring July 1, 2008)

Also attending:

Donna Holden, Clerk
David Minot, Director of Finance and Investments
Bill Rice, Director of Law and Policy
Jaye Pershing-Johnson, Assistant Attorney General
NEPC – Ellen Griggs, Kevin Kondry, Chris Levell

CALL TO ORDER:

The Chairperson, Jeb Spaulding, called the Wednesday, May 31, 2006 meeting to order at 8:08 a.m., which was held in the 4th Floor Conference Room at 109 State Street, Montpelier, VT.

ITEM 1: Investment Consultant Quarterly Review

Ellen Griggs, Kevin Kondry, and Chris Levell of NEPC appeared before the Committee to present the Q1/06 report. They reported a total fund balance of \$2.943 billion in assets. The Committee also reviewed the individual plans' current and target asset allocations, manager summaries, and plan performance.

VSTRS:

The first quarter 2006 performance reported a market value fund balance at approximately \$1.439 billion and a gross quarterly return of 5.1%, an out performance of the 4.3% median public fund. The one-year return was 12.5% vs. the median public fund at 13.0%, three-year return 16.1% vs. the median public fund at 15.7% and a five-year return of 7.9% vs. 7.2%.

VSERS:

The first quarter 2006 performance reported a market value fund balance at approximately \$1.227 billion and a gross quarterly return of 4.9%, an out performance of the 4.3% median

public fund. The one-year return was 13.1% vs. the median public fund at 13.0%, three-year return 15.9% vs. the median public fund at 15.7% and a five-year return of 7.6% vs. 7.2%.

VMERS:

The first quarter 2006 performance reported a market value fund balance at approximately \$278 million and a gross quarterly return of 4.6%, an out performance of the 4.3% median public fund. The one-year return was 14.3% vs. the median public fund at 13.0%, three-year return 15.3% vs. the median public fund at 15.7% and a five-year return of 7.5% vs. 7.2%.

ITEM 2: Committee Action Items

A. Approve the Minutes of April 11, 2006

On a motion by Mr. Kaplan seconded by Mr. Hooper, the Committee unanimously voted to approve the minutes of April 11, 2006, as submitted.

B. Executive Committee Report

None

C. Investment/Search Subcommittee Report

▪ VEDA Investment Proposal Recommendation

It was reported that based on the lack of consensus, the Investment Search subcommittee had no recommendation to present.

▪ Investment Guideline Amendments Approval

On a motion by Mr. Kaplan seconded by Mr. Jeffrey, the Committee unanimously voted to accept the Investment Search subcommittee recommendation to approve the Investment Guideline amendments, as amended (to remove paragraph 4 of the Mondrian exemptions).

▪ Commission Recapture & Securities Lending Recommendations

On a motion by Ms. Duquette seconded by Mr. Altemus, the Committee unanimously voted to accept the Investment Search subcommittee recommendation to approve the transfer to the *Quality D* Securities Lending program.

On a motion by Mr. Candon seconded by Mr. Harris, the Committee unanimously voted to delegate to the Investment Search subcommittee the authority to implement a Commission Recapture policy.

The Committee requested a legal opinion on their ability to delegate its authority to subcommittees.

▪ **Real Estate Manager (5) Updates**

Mr. Spaulding briefed the Committee on the previous day's manager evaluations and report from NEPC. He advised that NEPC was requested to provide a "side-by-side" evaluation of the current managers.

On a motion by Mr. Hooper seconded by Ms. Duquette, the Committee unanimously voted to accept NEPC's recommendation to diversify the real estate allocation to add a value-added component, and authorized NEPC to conduct a search for an open-ended, closed-ended, and international value added managers, for the VPIC's consideration.

▪ **BlackRock Conversion Recommendation**

Mr. Kaplan made a motion seconded by Ms. Duquette, to accept the Investment Search subcommittee recommendation, as submitted, to pursue the conversion of the BlackRock investment to an REIT.

On a motion by Mr. Jeffrey seconded by Mr. Mackey, the Committee voted to table action on the motion until the end of the meeting, pending further information. *Motion carried.*

D. Alternative Investment Allocation Study

On a motion by Ms. Duquette seconded by Mr. Reardon, the Committee unanimously voted to authorize NEPC and staff to work with the Investment Search Subcommittee to develop a specific plan to invest the alternative asset allocation for each plan, and for the plan to be brought to the VPIC for approval.

E. Investment Policy Regarding Sudan and Other Terrorism Sponsoring Nations

Mr. Spaulding briefed the Committee on Legislation and opinions of other states pursuant to investment policies regarding Sudan and other terrorism sponsoring nations.

Discussion ensued, which included among other items, fiduciary responsibility, potential legislative intervention, etc. NEPC advised the Committee that many other public plans were also dealing with the same issue

On a motion by Mr. Reardon seconded by Mr. Kaplan, the Committee voted to refer the matter to the Policy Subcommittee to determine whether there should be a policy, how the policy should read, and how it would be implemented. *Motion carried.*

F. Membership in the Council of Institutional Investors (CII)

Mr. Harris made a motion seconded by Mr. Kaplan, to approve VPIC's membership in the Council of Institutional Investors.

On a motion by Mr. Hooper seconded by Mr. Healy, the Committee voted to table action on the motion to the next VPIC meeting. *Motion carried.*

ITEM 3: Committee Discussion Items

A. Director of Finance and Investments Report

Mr. Minot reviewed his report.

B. Policy Regarding Investing in Vermont

The Committee reviewed the PRIM Economically Targeted Investment Program Policy and DRAFT VPIC Policy proposed by Mr. Spaulding.

On a motion by Mr. Candon seconded by Mr. Mackey, the Committee unanimously voted to refer the DRAFT *VPIC Economically Targeted Investment Program Policy* to the Investment Search Subcommittee for review, refinement if needed, and referral back to the VPIC for approval.

C. Legislative Update

Mr. Spaulding updated the Committee on recently approved legislation, which included the State's commitment to fully fund the VSTRS moving forward. He also said the Treasurers was also given a legislative directive to provide a report on possible VSERS and VSTRS benefit plan recommendations regarding health care.

Discussion ensued regarding whether the legislature has authority to direct spending of Trust Fund money, and the ownership of the funds, once deposited into the Trust Fund.

Mr. Hooper made a motion seconded by Mr. Healy, to request clarification from the Attorney General's Office regarding the Legislature's authority to direct spending of Trust Fund money for this study.

The Chair ruled the motion out of order and said the issue should be directed to each Board.

Mr. Spaulding advised the Committee that enabling language was granted in H.881 to permit the VPIC to enter into agreements with municipalities to invest their retirement funds (from the municipalities) into VPIC investments. Mr. Spaulding advised that a specific municipality has already contacted him expressing interest in the options, therefore, suggested a small group of Committee members work with him to develop a plan for the implementation framework.

Mr. Jeffrey made a motion seconded by Ms. Duquette, for the Treasurer and a small working committee of his choosing, to develop a framework of how the plan would work, and then meet with the interested municipality.

Mr. Hooper made a motion seconded by Mr. Kaplan, to substitute the motion to set aside 90-minutes, at the next VPIC meeting, for a full Committee discussion with counsel from the Attorney General's Office regarding implications and relative issues.

Mr. Hooper amended his substitute motion seconded by Mr. Jeffrey, for the Treasurer and a small working committee of his choosing to develop an implementation framework which would set parameters and aid in the 90-minute meeting with counsel from the Attorney General's Office.

Mr. Kaplan called for a cease to debate.

By unanimous consensus all motions were withdrawn.

On a motion by Mr. Hooper seconded by Mr. Harris, the Committee unanimously voted to set aside 90-minutes, at the next VPIC meeting, for a full Committee discussion with counsel from the Attorney General's Office regarding implications and relative issues, and for the Treasurer, and a small working committee of his choosing, to develop an implementation framework to aid in setting parameters for the discussion. *Motion carried 12-2.*

ITEM 4: VPIC Education – Asset Liability Management

Along with the Committee, Mr. Levell reviewed the *Asset Liability Management* presentation.

ITEM 2: (CONTINUED) Committee Action Items

▪ **BlackRock Conversion Recommendation**

By consensus, the Committee agreed to direct staff to work on the conversion details and report to the VPIC at the August meeting.

Adjournment

On a motion by Mr. Altemus seconded by Mr. Harris, the Board unanimously voted to adjourn at 2:06 p.m.

Next Meeting Date:

August 15, 2006

Respectfully submitted,

Donna Holden, Clerk